

ORIGINAL

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

ORIGINAL
FILE

In the Matter of)	
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Treatment of Local Exchange Carrier)	
Tariffs Implementing Statement of)	CC Docket No. 92-101
Financial Accounting Standards,)	
"Employers Accounting for)	
Postretirement Benefits Other Than)	
Pensions")	
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Bell Atlantic Tariff F.C.C. No. 1)	Transmittal No. 497
)	
US West Communications, Inc. Tariff)	Transmittal No. 246
F.C.C. Nos. 1 and 4)	
)	
Pacific Bell Tariff F.C.C. No. 128)	Transmittal No. 1579

REPLY OF THE BELL ATLANTIC TELEPHONE COMPANIES

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

The Bell Atlantic Telephone
Companies

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July 31, 1992

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REPLY OF THE BELL ATLANTIC TELEPHONE COMPANIES¹

The Oppositions² to Bell Atlantic's Direct Case reflect a fundamental misunderstanding of Bell Atlantic's Direct Case, the request for exogenous treatment of SFAS-106, and the methodologies used to determine the costs underlying Bell Atlantic's tariffs. As a result, they provide no basis for rejecting Bell Atlantic's tariffs and the tariffs should, therefore, be approved.

¹ The Bell Atlantic telephone companies ("Bell Atlantic") are The Bell Telephone Company of Pennsylvania, The Diamond State Telephone Company, the four Chesapeake and Potomac telephone companies, and New Jersey Bell Telephone Company.

² The Ad Hoc Telecommunications Users Committee filed an "Opposition to Direct Cases" ("Ad Hoc Opposition") and attached an "Analysis of FAS 106 Effects Under Price Caps" prepared by David J. Roddy and Page Montgomery of Economic and Technology, Inc., ("ETI Analysis"); the American Telephone and Telegraph Company filed an "Opposition to Direct Cases" ("AT&T Opposition") and attached a "Sensitivity Analysis Performed for AT&T Relating to SFAS 106" by Milliman & Robertson, Inc., ("Milliman & Robertson Analysis"); the International Communications Association ("ICA") filed "Comments to the Commission's Order of Investigation and Suspension, CC Docket No. 92-101, released April 30, 1992", and attached the ETI Analysis; and MCI Telecommunications Corporation filed an "Opposition to Direct Cases" (MCI Opposition) and attached an "Affidavit by Professor Allan Drazen" ("Drazen Affidavit").

Introduction and Summary

Implementation of SFAS 106 is an exogenous event. The opponents do not dispute this fact, but they argue that exogenous treatment is inappropriate because the underlying level of benefits is within the carriers' control. The opponents fail to understand that it is not a change in the level of benefits for which exogenous treatment is sought, but the one-time change in accounting.

Consistent with the Commission's price cap objectives, Bell Atlantic has not sought recovery of costs that are reflected in the GNP-PI. Claims by the opponents that carriers are double counting SFAS 106 costs because they have already been compensated by the rate of return, or because general inflation is included in the medical inflation rate used to calculate those costs are simply wrong.

The opponents argue that, if exogenous treatment for SFAS 106 costs is granted, the Commission should set limitations on the costs for which carriers can seek recovery. The limitations proposed by the opponents are arbitrary and unreasonable and should not be adopted.

I. The Implementation Of SFAS-106 Is An Exogenous Event And Recognition Of Those Costs Comports With The Commission's Price Cap Objectives.

In 1990, the Financial Accounting Standards Board ("FASB")³ concluded that the cash or "pay-as-you-go" method of accounting for retirees' benefits other than pensions⁴ failed to reflect companies' true financial positions. In December 1990, the FASB released Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("SFAS 106"), which requires accrual of expenses for post-retirement benefits other than pensions ("other post-employment benefits" or "OPEB") over an employee's expected service life. The FASB required companies to implement SFAS 106 for fiscal years beginning after December 15, 1992, but earlier adoption was encouraged.⁵ This method of accounting provides a more accurate picture of a company's financial results.

On December 26, 1991, the Commission issued an order directing carriers to implement SFAS 106 for regulatory accounting purposes on or before January 1, 1993, and to amortize the transition

³ The FASB promulgates accounting rules which apply to all United States companies, not just to telephone companies.

⁴ The FASB had earlier required companies to switch from cash to accrual accounting for pension benefits. SFAS 87 and 88. The Commission incorporated GAAP, including SFAS 87 and 88, into the revised Uniform System of Accounts ("USOA"), Part 32 of the Commission's Rules.

⁵ SFAS 106, ¶ 108.

obligation in accordance with SFAS 106.⁶ Because the FASB's rule and the Commission's order requiring implementation of the rule are mandatory, Bell Atlantic is required to implement SFAS 106. Therefore, the difference between the costs reported on a cash basis and the costs reported on an accrual basis at the time Bell Atlantic implemented SFAS 106 is exogenous.⁷

None of the opponents has offered any rebuttal to the foregoing facts. All of them nevertheless argue that SFAS 106 should not be given exogenous treatment because the level of costs for the underlying benefits are within Bell Atlantic's control.⁸ These arguments reflect a fundamental misunderstanding of Bell Atlantic's transmittal and direct case.

Bell Atlantic does not seek exogenous treatment for the costs of any new or different level of postretirement benefits. It simply seeks exogenous treatment for the SFAS 106 accounting change which is not within Bell Atlantic's control. Although the level of benefits provided by Bell Atlantic did not increase, implementation of SFAS 106 as mandated by the FASB and the Commission required

⁶ Southwestern Bell, GTE Corporation, Notification of Intent to Adopt Statement of Financial Accounting Standards No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions, AAD-80 (released December 26, 1991) ("SFAS 106 Order").

⁷ This difference, for which Bell Atlantic requests exogenous treatment, is hereafter referred to as "SFAS 106 costs."

⁸ Ad Hoc Opposition, pp. 9-17; ETI Analysis, pp. 4-11; AT&T Opposition, pp. 17-23; MCI Opposition, pp. 5-9.

Bell Atlantic to recognize additional expenses in its cost of service -- the SFAS 106 costs.⁹

The change in accounting is a one-time event. There is, therefore, no need for repeated "true-ups" as claimed by MCI.¹⁰ Similarly, the arguments by MCI, Ad Hoc, and ETI that Bell Atlantic could "gold plate" its benefits, or change the mix of compensation provided to employees so as to increase its rates are nothing more than scare tactics. As discussed above, Bell Atlantic does not claim exogenous treatment for changes in the level of benefits provided to employees.¹¹

A number of opponents claim that carriers could manipulate the level of OPEBs before implementing SFAS 106 or the actuarial assumptions so as to increase their SFAS 106 costs. These claims are without merit. Since Bell Atlantic has already implemented

⁹ MCI argues that SFAS 106 has no effect on carriers' actual costs, and is merely an accounting change that alters the temporal recognition of the costs on financial statements. MCI Opposition, p. 8. SFAS 106, however, is not an arbitrary temporal shift. Instead, SFAS 106 changes the level of costs that carriers recognize currently, in order to more accurately match those costs with the time periods to which they are attributable. See SFAS 106, ¶¶ 3, 4. Bell Atlantic should have the opportunity to recover those costs in its rates.

¹⁰ MCI Opposition, p. 11, n. 14.

¹¹ If a change in the level of benefits were mandated by a regulatory agency or other governmental body, those costs would be exogenous, because they would be beyond Bell Atlantic's control. For example, if Congress were to enact national health care legislation, the cost impact of that benefit at that point in time (to the extent not reflected in GNP-PI) should receive exogenous treatment, just as the implementation of SFAS 106 should.

SFAS 106, the Commission can see that Bell Atlantic did not increase its postretirement benefits in order to inflate its SFAS 106 costs.

AT&T and MCI argue that Bell Atlantic's decision to implement SFAS 106 in 1991 was within its control, and that to allow Bell Atlantic to recover SFAS 106 costs for the 1991 implementation would amount to retroactive ratemaking.¹² Bell Atlantic has already explained that early implementation was encouraged and should be afforded exogenous treatment.¹³ Nor does Bell Atlantic's request amount to retroactive ratemaking. Bell Atlantic is not seeking to recover losses that predate its tariff filing.¹⁴ Rather, it is seeking to base current rates on current costs, as defined by SFAS 106. That is not retroactive ratemaking by any stretch of the imagination.

Moreover, far from inflating its OPEB expenses prior to implementing SFAS 106, Bell Atlantic had taken many steps to control OPEB costs. These included a significant reduction in future management retiree benefits for post December 31, 1991 retirees, implementation of a managed care network for post-1989 associate retirees, premium cost sharing, deductibles, co-payments,

¹² AT&T Opposition, p. 17, n.***; MCI Opposition, p. 18.

¹³ See Direct Case, pp. 7-8.

¹⁴ See Bell Atlantic Telephone Companies Tariff FCC No. 1, Transmittal Nos. 492 and 501, DA 92-335 (released March 18, 1992), ¶ 4.

outpatient treatment incentives, generic prescription drug programs, capping of Medicare Part B Benefits, and individual case management. The effects of these cost containment efforts were reflected in the calculation of Bell Atlantic's SFAS 106 amounts.¹⁵

AT&T, among others, claims that carriers' SFAS 106 costs are not verifiable. In fact, however, Bell Atlantic's SFAS 106 costs were developed by an AT&T subsidiary, Actuarial Sciences Associates (ASA). ASA provided an actuarial report on SFAS 106 costs that could be independently verified by another actuarial firm.¹⁶ In addition, the actuarial reports and results were subject to Bell Atlantic's financial audit and its Part 64 audit. Two independent auditing firms, therefore, have reviewed Bell Atlantic's implementation of SFAS 106.¹⁷ The actuarial reports confirm that

¹⁵ Ad Hoc, ETI, and MCI argue that the early retirement offers of LECs will reduce SFAS 106 costs. Ad Hoc Opposition, p. 17, n. 45; ETI Analysis, pp. 10-11; MCI Opposition, pp. 19-20. In fact, early retirement programs usually increase SFAS-106 costs. Under SFAS 106, benefit costs are accrued until date of first eligibility for the postretirement benefit. Those costs are based on benefits starting at the expected retirement date. If an early retirement offer is made, the result is generally that employees retire sooner than their expected retirement dates. Therefore, postretirement benefits will be paid sooner than expected which increases the cost of providing postretirement benefits. This is especially significant where the employee retires prior to eligibility for Medicare. This same logic also applies if a plan amendment is made to extend the eligibility to employees who otherwise would not have been eligible to retire.

¹⁶ ASA has provided a letter stating that Bell Atlantic's SFAS 106 costs are reasonable and have been calculated in accordance with SFAS 106 and actuarial standards (Attachment A).

¹⁷ Coopers and Lybrand performs Bell Atlantic's and each Bell Atlantic operating telephone company's annual financial audit, and Price Waterhouse performs Bell Atlantic's attest audit for

the assumptions and underlying data, and the resulting costs, are reasonable and verifiable.

Finally, a number of opponents argue that carriers could reduce their benefit levels following implementation of SFAS 106 and receive a cash "windfall."¹⁸ In fact, however, Bell Atlantic's ability to reduce benefit levels is quite restricted. Retirement benefits for 75% of Bell Atlantic's active employees cannot be changed except through bargaining between Bell Atlantic and the unions representing its associate employees. In addition, although Bell Atlantic has, since divestiture, expressly reserved the right to change the benefits provided to retirees, the majority of Bell Atlantic's retirees retired before divestiture, and AT&T's communications before divestiture were not clear in reserving its right to change benefits.¹⁹

Part 64.

¹⁸ E.g., Ad Hoc Opposition, p. 17; MCI Opposition, p. 10.

¹⁹ Ad Hoc argues that carriers are not legally bound to provide postretirement benefits. Ad Hoc Opposition, p. 13. Although it is correct that no employer is required to offer postretirement benefits ab initio, once an employer establishes postretirement benefit plans, significant restrictions on the ability to modify or terminate such plans may become applicable. The Employee Retirement Income Security Act of 1974 ("ERISA") does not directly require vesting of welfare benefits. See, e.g., Ryan v. Chromalloy American Corp., 877 F.2d 598 (7th Cir. 1989). A number of courts, however, have concluded that, under the circumstances presented, employers must continue to provide postretirement benefits. See, e.g., Eardman v. Bethlehem Steel Corp. Employee Welfare Benefit Plans, 607 F.Supp. 196 (W.D.N.Y. 1984); Hansen v. White Farm Equipment Co., 788 F.2d 1186 (6th Cir. 1986); UAW v. Yard-Man, Inc., 716 F.2d 1476 (2d Cir. 1983), cert. denied, 465 U.S. 1007 (1984). Under other circumstances, courts have reached different conclusions. See, e.g., Musto v. American

II. Bell Atlantic's Tariffs Have Appropriately Eliminated Any Possible Double Counting Of SFAS 106 Costs.

Ad Hoc argues that a carrier must establish that a cost change is unique to, or disproportionately affects, carriers in order to warrant exogenous treatment.²⁰ This argument is simply another way of saying that carriers should not receive exogenous treatment for cost changes that will be reflected in the GNP-PI.²¹ Bell Atlantic does not disagree.

After developing its SFAS 106 costs, Bell Atlantic used the study performed by Godwins, Inc. to determine the amount of those costs that would be reflected in the GNP-PI.²² Bell Atlantic removed that amount from its costs when it developed its tariffs in order to avoid the double counting prohibited by the Commission's price cap rules.²³

General Corp., 861 F.2d 897 (6th Cir. 1988); Moore v. Metropolitan Life Insurance Co., 856 F.2d 488 (2d Cir. 1988).

²⁰ Ad Hoc Opposition, pp. 8-9.

²¹ Bell Atlantic Telephone Companies' Tariff FCC No. 1, Transmittal No. 473, Memorandum Opinion and Order, DA 92-175 (released February 10, 1992), ¶ 9.

²² See Bell Atlantic Telephone Companies' Other Post-Employment Benefits (OPEB) -- SFAS-106 Exogenous Cost Filing, FCC Tariff No. 1, Transmittal No. 497, filed February 28, 1992 ("Transmittal No. 497"), which included the Godwins Study.

²³ Id. See also Direct Case of Bell Atlantic, pp. 27-28. As explained in these filings, wage changes are endogenous. Moreover, any national wage rate changes, such as a minimum wage rate increase or reduction of the average wage rate, would affect all employers, including Price Cap LECs, and would eventually be reflected in the GNP-PI. Therefore, the potential average wage

The Godwins Study was based on conservative assumptions and contained both an actuarial and a macroeconomic analysis. The opponents have raised a number of criticisms of the study. Their arguments reflect either a misunderstanding of the study itself, or more fundamental economic errors. Attached hereto as Attachment B is a response, prepared by Godwins, to these criticisms.

The opponents make two additional arguments in their effort to show some double counting. First, they claim that the carriers have already been compensated for SFAS 106 costs through the return on equity authorized by the Commission. This claim is simply wrong. It rests on the underlying assumption that the LECs' stock prices would have fallen in anticipation of the implementation of SFAS 106, thereby producing a higher cost of equity as a result of the Commission's use of the discounted cash flow ("DCF") model.²⁴ The assumption, however, is contrary to fact. From January 1, 1986 to December 31, 1988, the average RBOC's stock price rose 35%.²⁵ Use of the higher stock price in the DCF model would produce a

rate reduction in the economy, which was identified in the Godwins Study, should not be included in a determination of the exogenous costs arising from implementation of SFAS 106.

²⁴ For example, MCI relies on "[w]ork by Middelstaedt and Warshawsky of the Federal Reserve Board [which] indicates that during the period 1986-88 share prices of those firms that would be affected by SFAS-106 accounting requirements have in fact seen their share prices adjust downward in response to these accounting liabilities." MCI Opposition, p. 15.

²⁵ Bell Atlantic's stock price rose 34% during that time period.

lower cost of equity. In other words, the rate of return simply did not reflect the implementation of SFAS 106.

Even if there had been a reduction in the stock price and a resulting increase in the authorized return on equity in anticipation of the implementation of SFAS 106, however, there would still not be any double counting. The authorized return on equity is a return on the investment provided by shareholders. SFAS 106 costs are not in any sense an "investment" on which a return is earned. Instead, they are operational costs -- expenses -- that can only be recovered through rates.

Second, the opponents argue that inflation of medical costs is included in calculating Bell Atlantic's SFAS 106 costs, but that inflation will also be reflected in the GNP-PI, resulting in double counting.²⁶ This claim reflects a misunderstanding of the way SFAS 106 costs are determined. While assumptions are made about future medical inflation, OPEB costs are discounted to present value to determine SFAS 106 costs. This process removes the effect of general inflation from the SFAS 106 costs underlying Bell

²⁶ AT&T Opposition, p. 14, n. **; MCI Opposition, p. 30.

Atlantic's tariff.²⁷ Therefore, there will be no double counting of future inflation reflected in the GNP-PI.

None of the opponents' attempts to show a double counting have merit. Because Bell Atlantic has only sought rates to cover the portion of SFAS 106 costs not reflected in the GNP-PI, exogenous treatment is appropriate, and Bell Atlantic's tariffs should be approved.

III. The Limitations Suggested By Opponents On SFAS 106 Costs That May Be Recovered In Rates Are Not Appropriate.

The opponents argue that, if exogenous treatment is afforded SFAS 106 costs, the Commission should place restrictions on the ability of LECs to recover those costs in rates. None of their suggestions, however, is appropriate.

AT&T, Ad Hoc, and MCI claim that, since the assumptions used by the LECs to develop their SFAS 106 costs vary, they must be unreasonable.²⁸ These opponents argue that the Commission should impose a standard, uniform set of assumptions. Such a requirement would be arbitrary and inappropriate.

²⁷ If the Commission were to decide to reduce medical cost inflation by the GNP-PI, which it should not, then, to be actuarially consistent, the discount rate used to develop the present value of benefit costs would also have to be reduced, because that discount rate is intended to reflect both a "real" rate of return and inflation.

²⁸ AT&T Opposition, pp. 25-29; Ad Hoc Opposition, p. 13; MCI Opposition, pp. 27-29.

The assumptions used by Bell Atlantic are reasonable. As discussed above, those assumptions were developed with the assistance of an actuarial firm, ASA, which is a wholly-owned subsidiary of AT&T. Moreover, the amounts have been reviewed by two independent auditing firms.

AT&T and MCI nevertheless question Bell Atlantic's assumptions. AT&T argues that LECs should use a 9% discount rate in developing SFAS 106 costs, rather than the 7.75% disclosed by Bell Atlantic in its 1991 Annual Report. The 7.75% disclosed by Bell Atlantic is the same discount rate Bell Atlantic disclosed for calculation of its pension costs pursuant to SFAS 87. AT&T disclosed an 8% discount rate in its 1991 Annual Report for calculating its pension costs, not the 9% it recommends for the LECs. Moreover, long term bond rates have been dropping recently. For example, 30-year Treasury bonds closed at 7.44% on July 30, 1992. In addition, the Pension Benefit Guaranty Corporation ("PBGC") has published benefit annuity rates which show a downward trend:

Current Rates

Immediate annuities	6.25%
Annuities deferred up to 7 years	5.5%
Annuities deferred 8-15 years	4.25%

Rates Effective 8/1/92

Immediate annuities	6.0%
Annuities deferred up to 7 years	5.25%
Annuities deferred 8 or more years	4.0%

Therefore, the 7.75% used by Bell Atlantic is reasonable and in line with current long-term interest rates.

MCI argues that the LECs have not appropriately reflected the impact of employee turnover on SFAS 106 costs.²⁹ To the contrary, in developing its SFAS 106 costs, Bell Atlantic used actual telecommunications industry experience to estimate the number of its employees who will not reach retirement age due to turnover. Bell Atlantic also used actual telecommunications industry experience to develop its retirement, disability and mortality assumptions. Bell Atlantic's medical and dental claims input and demographic data were based on Bell Atlantic's own actual experience. Finally, all assumptions about future events -- with the exception of health care trend rates which are unique to SFAS 106 -- are the same assumptions used in determining Bell Atlantic's pension costs.

The fact that assumptions or levels of SFAS 106 costs vary from company to company does not indicate that the assumptions used by those companies were unreasonable.³⁰ SFAS 106 costs will necessarily vary from company to company depending on, for example, the geographic and demographic characteristics of the area where

²⁹ MCI Opposition, pp. 27-28.

³⁰ The FASB could have imposed such a requirement of uniform assumptions in promulgating SFAS 106 but, for good reason, did not. Similarly, neither the FASB nor this Commission imposed such a requirement with respect to pension costs under SFAS 87 and 88.

the company operates, the age distribution of the company's employees, the cost of medical services in that part of the country, the particular benefit plans in place, and cost containment efforts that may have been instituted or may be planned. Requiring the use of a single set of assumptions would produce a number unrelated to the actual costs experienced by each carrier and would, therefore, be arbitrary and inappropriate.³¹

AT&T and ETI argue that carriers should be required to fund OPEB expenses in order to recover SFAS 106 costs in rates. Such a requirement would have one of two consequences, neither of which is reasonable. First, a requirement of funding could force carriers to make uneconomic use of their money. Bell Atlantic has prefunded OPEB benefits where it could do so on a tax-advantaged basis.³² Any further prefunding would not be tax deductible, or the assets would not be permitted to accumulate tax-free. Neither ratepayers nor shareholders will benefit if Bell Atlantic is required to manage its funds in ways that are not economical.

Alternatively, a funding requirement could mean that carriers would only be able to recover in rates the amount of costs that had been funded. This is the equivalent of adopting cash accounting for ratemaking purposes while paying lip service to the idea of

³¹ By contrast, as discussed above, Bell Atlantic's costs which were developed from its specific assumptions have been reviewed by both its financial and Part 64 auditors.

³² Direct Case, pp. 16-17.

accrual accounting for reporting purposes. The Commission has incorporated GAAP into its Part 32 accounting rules,³³ and therefore has adopted a fundamentally accrual-based accounting system. It makes no sense to ignore those rules in one instance simply to achieve a short-term goal of lower rates.

MCI argues that the LECs have not adequately addressed the cash windfall they will receive if exogenous treatment is afforded SFAS 106 accruals and funding is not required.³⁴ MCI is incorrect with respect to Bell Atlantic. In developing its revenue requirement underlying its tariff filing, Bell Atlantic reduced its ratebase for the unfunded portion of its accruals.³⁵

Conclusion

Implementation of SFAS 106 is an exogenous event that causes additional costs for Bell Atlantic. Bell Atlantic has removed the

³³ Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies (Parts 31, 33, 42, and 43 of the Commission's Rules), CC Docket No. 78-196, Report and Order, FCC 86-221 (released May 15, 1986), ¶ 111.

³⁴ MCI Opposition, pp. 10-11.

³⁵ On May 4, 1992, the Common Carrier Bureau issued Responsible Accounting Officer Letter No. 20 ("RAO 20"), which addressed the ratebase treatment of carriers' accrued amounts compared to cash payments. Bell Atlantic has filed an Application for Review of RAO 20 on the ground, among others, that the requirement to make a ratebase adjustment should be postponed until after the decision is made to afford exogenous treatment to SFAS 106 costs. If LECs are not permitted to recover their accrual amounts in rates, no ratebase adjustment would be appropriate.

costs that will be reflected in GNP-PI and, therefore, exogenous treatment under the Commission's price cap rules is appropriate. The limitations on the recognition of SFAS 106 costs proposed by opponents are arbitrary and unreasonable. Accordingly, the Commission should grant exogenous treatment for SFAS 106 costs and should approve Bell Atlantic's tariffs.

Respectfully submitted,

The Bell Atlantic Telephone
Companies

James R. Young
Of Counsel


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July 31, 1992

ATTACHMENT A

Letter from Actuarial Sciences Associates
dated July 9, 1992



July 9, 1992

Ms. Catherine P. Lohwater
Manager-Retiree Health Strategies
Bell Atlantic Corporation
1717 Arch Street, 47th Floor
Philadelphia, PA 19103

Dear Cathy:

At your request, Actuarial Sciences Associates determined Bell Atlantic Corporation's final 1991 postretirement health and group life insurance benefit expenses for regulatory purposes under Statement of Financial Accounting Standards Number 106 (SFAS 106).

Postretirement health benefits included in the expense calculations were medical benefits, group life insurance, dental benefits, and Medicare Part B premium reimbursements. Expenses were determined separately for Management and Associate participants.

Actuarial Assumptions

The actuarial assumptions used for expense calculation purposes were selected in accordance with the requirements of SFAS 106. For the most part, they were identical to the assumptions used in determining pension expenses under SFAS 87. Pension expense assumptions were modified, where appropriate, for postretirement health benefit actuarial valuation purposes. The postretirement health benefit expense also reflected appropriate additional assumptions, such as expected postretirement medical benefit claim costs and trend rates.

The assumed discount rate of 8% was selected in accordance with SFAS 106 Paragraph 31. It reflects rates of return on high quality fixed income investments available as of January 1, 1991 with cash flows matching expected plan benefit payments.

Catherine P. Lohwater
July 9, 1992
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The expected return on plan assets of 7.5% was selected in accordance with the requirements of SFAS 106 Paragraph 32. It reflects rates of return expected to be earned on plan assets under current and expected economic and investment conditions based on the plan's current investment policy.

Health care trend rates were determined separately for medical benefits before and after age 65, and dental plan benefits. The initial trend rates for medical benefits averaged somewhat over 14% and generally graded down to an ultimate trend rate of just under 5% on average in the year 2003.

The health care trend rates were selected in accordance with SFAS 106 Paragraphs 39 and 40. The trend rates reflected estimates of future health care inflation, expected changes in health care utilization, technological advances, and expected changes in the health status of plan participants.

Assumed postretirement health claims costs were developed in accordance with SFAS 106 Paragraphs 35 to 38. They reflected actual 1991 postretirement health benefit claims data for Bell Atlantic Corporation's retired employees supplied by the plan's insurance carriers.


Participant Data

The demographic data used for postretirement health expense calculation purposes was essentially the same as used to determine 1991 pension expenses. This data was provided by the company and refined by both ASA and the Company's pension plan actuary, TPF&C. Accordingly, it was of high quality sufficient for actuarial valuation purposes.

Conclusions

In my opinion, Bell Atlantic Corporation's postretirement health and group life benefit expenses for 1991 were determined on a basis consistent with generally accepted actuarial procedures and with the requirements of SFAS 106.

Respectfully Submitted,



Thomas G. Bainbridge

ATTACHMENT B

Godwins' Supplemental Report Responding to
Objections Rasied Regarding Original Study

UNITED STATES TELEPHONE ASSOCIATION

Analysis of Impact of SFAS 106 Costs on GNP-PI

*Supplemental Report:
Responses to Objections Raised
Regarding Original Study*

July, 1992

The logo for Godwins, featuring the word "Godwins" in a stylized, cursive script font. The logo is positioned in the bottom right corner of the page, with two thick, parallel diagonal lines extending from the bottom left towards the top right, passing behind the text.

Godwins

INTRODUCTION

Earlier this year, Godwins submitted a report to the United States Telephone Association (USTA) analyzing the impact of SFAS 106 on the GNP-PI, and, in particular, the extent to which the GNP-PI will reflect the increase in costs experienced by the Price Cap LECs as a result of adopting the new accounting standard. This report was placed on the record with the FCC in Bell Atlantic's Tariff Transmittal filed on February 28, 1992 (Transmittal No. 497) and was also included in U.S. West's Tariff Transmittal filed on April 3, 1992 (Transmittal No. 246).

In their filings with the FCC, several organizations took exception to the findings of that report. In particular, AT&T, MCI and the Ad Hoc Telecommunications Users Committee raised several objections with regard to various aspects of the study. The USTA has asked Godwins to provide a detailed response to each of those objections.

The purpose of this Supplemental Report is to provide the USTA with those responses. We have organized our responses into three sections, corresponding to the three different types of objections raised.

While the objections raised were numerous, this material will demonstrate that none of the objections raised should cause the Commission to have any doubts regarding the soundness of the study, or the validity of the results.

Respectfully Submitted,



Peter J. Neuwirth, F.S.A., M.A.A.A.



Andrew B. Abel, Ph.D.